



CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY

Press Release

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Market Advisory Committee Releases Draft Market Design Recommendations

*Expert Advisors Suggest Design of Cap-and-Trade
System for Greenhouse Gas Reductions in California*

SACRAMENTO – Today, the 14-member Market Advisory Committee released the draft report of recommendations on the design of a cap-and-trade system to reduce greenhouse gas emissions in California. The 100-plus-page report outlines the various opportunities and challenges of different design elements in an emissions trading program.

"In order to meet the Governor's aggressive greenhouse gas targets, we're going to need a comprehensive approach to get the most reductions, in the quickest timeframe, and at the lowest cost " said Winston Hickox, chair of the Market Advisory Committee. "Ultimately, the Air Resources Board will decide whether to include market-based compliance mechanisms in a comprehensive greenhouse gas emissions reduction program. The Air Resources Board is a world class agency and we hope that they find the work product of this Committee, which also includes world class experts, helpful as they move forward with implementing the state's landmark global warming law."

The Market Advisory Committee (MAC) was created by the Secretary for Environmental Protection, Linda Adams, and includes national and international experts who have backgrounds in economics, environmental policy, regulatory affairs, and energy technologies.

Because of California's limited experience with cap-and-trade programs, and the national and international emphasis on cap-and-trade programs as an essential part of the effort to combat global warming, the members of the MAC were charged with making cap-and-trade program design recommendations to the Air Resources Board.

The Committee made recommendations for a cap-and-trade program that are intended to complement and build upon California's ongoing efforts to reduce emissions and its historic leadership in environmental protection.

At the outset the MAC agreed to a set of principles that would guide its design of an efficient, equitable, and effective cap-and-trade program. These principles include

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the avoidance of localized effects or the weakening of existing environmental regulations, to deliver cost-effective emission reductions, be practical with low transaction costs and to provide a leadership example to other states and countries.

Key recommendations from the report include:

- ***Incorporate all major GHG-emitting sectors of the economy into the cap-and-trade program.*** Especially at the outset, the ARB will likely need to evaluate the practical constraints imposed by data availability, management capacity, administrative complexity, and transaction costs, but all major GHG-emitting sectors should be eventually incorporated.
- ***Take a first-seller approach to capping emissions associated with electricity.*** California faces challenges in reducing emissions from the electricity sector because of the large amount of imported electricity, much of which is generated using coal. A “first-seller” is the entity that first sells electricity in the state is responsible for meeting the cap on emissions. Within California, the power plant is the first seller and would be required to meet the cap on emissions. For imported power, the first seller is typically an investor-owned or municipal utility or wholesale power marketer.
- ***Use a mixed approach of free allocation and auctioning of allowances.*** The MAC recommends a mixed approach of free allocation and auctioning of allowances in which auctioning is increased over time. The MAC recommends the state retain flexibility to freely allocate some of the allowances for the purposes of stabilizing price impacts, particularly on low-income consumers, and managing competitiveness issues for California firms, particularly in the near term.
- ***Allow offsets, both within and outside state borders, in a cap-and-trade program.*** Emission reductions by sources not included in the cap-and-trade program can be used to assist in meeting California’s 2020 emission reduction requirement, reduce costs and increase flexibility through the use of offsets. However, because of the administrative complexity associated with offsets the MAC recommends the cap-and-trade program include offsets in a time-phased fashion beginning in-state and expanding in a fashion that ensures integrity.
- ***Provide linkage opportunities for a California cap-and-trade program with similar policy initiatives in other jurisdictions.*** The MAC believes these benefits can be achieved without sacrificing environmental integrity or equity. In order to actively promote a global greenhouse gas market, California should encourage linkages with other mandatory GHG cap and trade systems.

For more information on the MAC and to view the full report go to http://www.climatechange.ca.gov/policies/market_advisory.html.

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